

Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 L-02 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01

FRB-03 OMB-01 XMB-02 AID-05 SS-15 NSC-05 /070 W

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P R 041009Z APR 75

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC PRIORITY 9240

INFO AMEMBASSY MANILA

C O N F I D E N T I A L SEOUL 2271

MANILA FOR ANTHONY GEBER

PASS USDA/FAS K. STEPHENS AND D. WILLIAMS

E.O. 11652: GDS

TAGS: EFIN KS

SUBJECT: COTTON CONTRACT PROBLEM

REF: STATE 51486

1. IN RESPONSE TO US PROPOSAL TRANSMITTED REFTEL EPB ON APRIL 4 SUBMITTED DRAFT COUNTERPROPOSAL LETTER (SEE PARA 6 BELOW) INTENDED TO (1) DELAY L/C OPENING DATES, (2) PERMIT NEW COTTON CONTRACTS TO BE FINANCED BY CCC CREDITS, AND (3) SECURE ADDITIONAL CCC CREDITS AS REQUIRED TO FINANCE ALL CURRENT CONTRACTS. WE CONSIDER L/C DELAYS INCLUDING REDUCTION OF CONTRACT GROUPINGS FROM 4 TO 2 PERIODS, TO BE REASONABLE IN VIEW OF CURRENT SITUATION AND DIFFICULTIES IN MOVING RAPIDLY. (EPB PROPOSAL FOR THEIR PERIOD I WOULD OPEN L/C'S FOR APPROXIMATELY 380,000 BALES WORTH ABOUT \$100 MILLION BY JUNE 30.)

2. EPB HAS WORDED PARA 1 OF THEIR COUNTERPROPOSAL TO PERMIT SOME NEW CONTRACTS TO BE FINANCED BY CCC CREDITS. EPB SAYS SUCH CREDITS NEEDED FOR MILLS WHICH HAVE HONORED
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ALL THEIR OLD CONTRACTS. WE HAVE REPEATEDLY SAID

PRESENT AGREEMENT AND CCC CREDITS MUST BE RESTRICTED TO OLD CONTRACTS. WE HAVE INDICATED THAT IF OLD CONTRACTS ARE LIQUIDATED SATISFACTORILY BY JUNE 30, IT MIGHT BE POSSIBLE TO ENTERTAIN A REQUEST FOR SOME FY 76 CCC FINANCING OF NEW COTTON PROCUREMENT BY MILLS WHICH MAY HAVE HONORED ALL OLD CONTRACTS BY THAT TIME.

3. WE CONSIDER EPB REQUEST FOR FULL CCC FINANCING OF CURRENT CONTRACTS (IN PARA 1 OF THEIR PROPOSAL) TO BE ONLY NEGOTIATING PLOY TO BE WITHDRAWN SHORTLY.

4. EPB PROPOSAL WAS PREPARED BY STAFF AND NOT CLEARED IN DETAIL WITH MINISTER NAM, DUCK WOO. WE HAVE RECEIVED REPEATED ASSURANCES FROM NAM, INCLUDING THOSE MADE DURING CALL BY ANTHONY GEBER, THAT CONTRACTS WILL BE HONORED AND SATISFACTORY AGREEMENT CONCLUDED SHORTLY. DIRECTOR ADLER IN CONVERSATION WITH NAM, APRIL 4 OBTAINED FAVORABLE RESPONSE TO EXPLANATION OF WHY NEW CONTRACTS MUST BE EXCLUDED FROM PRESENT AGREEMENT. SUCH PROBLEMS CAN BE CONSIDERED ON CASE BY CASE BASIS ALTHOUGH ADDITIONAL CCC FINANCING CANNOT BE CONSIDERED UNTIL FY 1976. NO MENTION OF ANY EXTRANEIOUS MATTERS, SUCH AS TEXTILE AGREEMENT HAS BEEN MADE BY EPB.

5. EPB DRAFT LETTER CONTAINS SOME CONFUSING ENGLISH AND APPARENTLY REDUNDANT PHRASE AFTER FIRST MENTION OF JULY 31, 1975 IN PARA 3.C. ANNEX TO EPB LETTER MENTIONED IN PARAS 4 AND 5 BELOW HAS NOT BEEN RECEIVED AND IS REPORTEDLY STILL UNDER PREPARATION, HOWEVER, EPB ANNEX REPORTEDLY NOT SIGNIFICANTLY AT VARIANCE WITH OUR ANNEX 1. FOLLOWING FURTHER DISCUSSIONS HERE EARLY NEXT WEEK WE EXPECT RECEIVE REVISED EPB LETTER CLOSER TO US PROPOSAL. MEANWHILE WOULD APPRECIATE REACTION TO CHANGES PROPOSED BY EPB.

6. EPB'S PROPOSED LANGUAGE FOLLOWS:

QUOTE 1. ALL CCC CREDITS FOR COTTON OUTSTANDING AS OF THE DATE OF THIS LETTER OR GRANTED PRIOR TO JUNE 30, 1975, WILL BE EXCLUSIVELY UTILIZED TO FINANCE CURRENT US COTTON CONTRACTS WITH A DATE OF DELIVERY
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PRIOR TO JULY 31, 1975, WHICH WERE CONCLUDED BEFORE THE DATE OF THIS LETTER. THE CCC CREDIT WILL BE GRANTED IN THE AMOUNT ENOUGH TO COVER AFORESAID SALES OF US COTTON.

2. THE ROKG WILL TAKE ALL POSSIBLE MEASURES INCLUDING FACILITATING BANK GUARANTEES FOR THE REPAYMENTS TO HELP EACH MILL HONOR THE REPAYMENTS DRAFTS, DRAWN BY CCC ON

KOREAN BANKS UNDER THE APPLICABLE LETTERS OF CREDIT.

3. THE ROKG WILL TAKE NECESSARY MEASURES TO ENSURE THE OPENING OF LETTERS OF CREDIT IN ACCORDANCE WITH THE FOLLOWING PROCEDURES:

A) ALL SALES WILL BE LISTED BY MILL.

B) FOR EACH MILL THE CONTRACTS WILL BE LISTED BY TYPE OF COTTON: TYPE A: 1-1/32INCH AND SHORTER: TYPE: 1-1/16 OR OVER: TYPE C: SAN JOAQUIN: TYPE D: AMERICAN PIMA.

C) UNDER EACH TYPE, SALES (CONTRACTS) WILL BE SEPARATED INTO TWO PERIODS BASED ON THE DELIVERY DATE IN THE CONTRACT: PERIOD 1- CONTRACTS WITH DELIVERY DATES PRIOR TO FEB 28, 1975, PERIOD 11 - CONTRACTS WITH DELIVERY DATES FROM MARCH 1, 1975 THROUGH JULY 31, 1975, AND CONTRACTS WITH A DATE OF SALE AFTER AUG 1, 1975 AND CONCURRENTLY WITH DELIVERY DATE BY JULY 31, 1975.

D) LETTERS OF CREDIT WILL BE OPENED ON CONTRACTS WITH EACH OF THESE GROUPS ACCORDING TO THE FOLLOWING SCHEDULES:

SHIPMENTS DUE PRIOR TO: L/C'S WILL BE OPENED BY:

FEB 28, 1975 (PERIOD 1) JUNE 30, 1975

(IN CASE MUTUALLY AGREED
UPON BY SELLERS AND BUYERS,
THE DATE TO OPEN THE
LETTERS OF CREDIT MAY BE
DEFERRED TO THE DATE AGREED
UPON.)

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JULY 31, 1975 (PERIOD II) AUGUST 31, 1975

(IN CASE MUTUALLY AGREED
UPON BY SELLERS AND BUYERS,
THE DATE TO OPEN THE LETTERS
OF CREDIT ON THE CONTRACTS
WITH "ON-CALL" BASIS MAY
BE DEFERRED TO THE DATE
AGREED UPON.)

E) WITHIN EACH TYPE OF COTTON THE CONTRACTS WILL BE LISTED BY DATE OF SALE, WITH THE OLDEST DATES LISTED FIRST.

F) WITHIN THE PERIODS SPECIFIED IN PARAGRAPHS 3 (C) AND (D) ABOVE, A MILL MAY OPEN LETTERS OF CREDIT FOR ANY

TYPE OF COTTON WHICH THE MILL HAS ON CONTRACT. WITHIN EACH TYPE OF COTTON INDIVIDUAL MILLS WILL OPEN LETTERS OF CREDIT ON THE OLDEST CONTRACTS FIRST IN PRINCIPLE. HOWEVER, THE MILL MAY OPEN LETTERS OF CREDIT ON CONTRACTS OF ANY TYPE OF COTTON WHEN AND IF DIFFICULTIES ARISE IN SUPPLY AND DEMAND OF CERTAIN TYPE OF COTTON.

4. A LIST OF OUTSTANDING SALES (CONTRACTS) FOR THE CURRENT COTTON MARKETING YEAR, ORGANIZED IN ACCORDANCE WITH THE CATEGORIES SPECIFIED IN PARA 3 (A) THROUGH (F), IS ATTACHED TO THIS LETTER AS AN ANNEX. THIS LIST IS AS COMPLETE AS WE CAN NOW MAKE IT. HOWEVER, IT IS UNDERSTOOD THAT CONTRACTS WHICH MEET THE REQUIREMENTS OF PARA 1 AND 3 OF THIS LETTER SHALL BE ADDED AT A LATER DATE AT THE REQUEST OF THE GOVERNMENT OF THE REPUBLIC OF KOREA OR THE GOVERNMENT OF THE US.

5. THE ROKG WILL ARRANGE FOR FINANCING FOR THE SALES OF US COTTON LISTED IN THE ANNEX OF THIS LETTER, IN THOSE CASES WHERE THE SALES IN QUESTION CAN NOT BE COVERED BY CCC CREDIT.

6. THE ROKG AGREES THAT THE SWAK PROVIDES USDA, OFFICE OF THE ASSISTANT ADMINISTRATOR, COMMERCIAL EXPORT PROGRAM - AFTER ADDITIONAL CREDIT IS MADE AVAILABLE- WITH AN ALLOCATION LIST OF CCC CREDIT FOR EACH MILL
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WHICH WILL BE USED BY THE USDA IN ALLOCATING ALL OUTSTANDING CCC CREDITS TO US SHIPPERS.

7. ANY CHANGE ON THE CONTRACTS AGREED UPON BY SHIPPERS AND BUYERS CAN BE ACCEPTABLE NOTWITHSTANDING THE PARAS MENTIONED ABOVE.
UNQUOTE
SNEIDER

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To: STATE
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